

MARKET BULLETIN

REF: Y4025

Title	Consolidated Taxation Advices – 2004 Year of Account
Purpose	To set out the timetable and procedures for the submission of the tax computations
Type	Scheduled
From	Christine Allcott, Manager, Tax Operations, Members' Services Unit Direct Tel No: 01634 392433 E-mail: Christine.allcott@lloyds.com
Date	12 June 2007
Deadline	2 July 2007
Related links	Appendix 1 – Tax Computation Standard Template

Please copy this Bulletin and its attachments to those within your organisation that are responsible for reviewing and completing the UK tax computations.

We apologise for the delay in issuing this bulletin and template; we have however been working to resolve a number of queries raised last year on the treatment of foreign tax. It has meant that it has been possible to significantly simplify the template and we hope that with the notes below on the subject, the template will be easier to complete.

1.0 Background

In order to provide members with a UK tax advice for their 2004 account results, certain information is required by MSU regarding the tax computations of the individual syndicates. The purpose of this bulletin is to inform managing agents of the information that is required by MSU for the 2004 account including run-off syndicates at 31 December 2006.

2.0 Tax Computation Data

2.1 The form attached as Appendix 1 should be completed for each syndicate and should be returned to MSU within 7 working days of submitting the tax computation to HMRC Large Business Service Financial Sector (London) and in any event by no later than close of business 2 July 2007.

- 2.2 Please note that managing agents may have previously used their own version of the tax computation forms. MSU has now streamlined these forms to enable the automated upload of this data into our systems. **It is therefore imperative that all managing agents use the forms as set out in Appendix 1.** Unfortunately, MSU will not be able to accept any non-standard forms and managing agents will be asked to re-submit if the standard forms have not been used.
- 2.3 The forms will also be made available for download from the Market Returns web site on the L-Net within 10 days of the date of this bulletin. The site will also enable agents to upload their completed forms. Should you have any questions regarding the Market Returns website, please contact Anita Wallace on 0207 327 5899. When submitting your returns to HMRC, please ensure that you also complete the section on the LL250 authorising HMRC to discuss the contents of your computation with Lloyd's.
- 2.4 When submitting your computation to MSU, please include a copy of HMRC Form LL250. Should HMRC enquire into the syndicate return please notify MSU, contact details are shown in 8.2 of this bulletin.
- 2.5 To produce fully reconciled consolidated taxation advices, MSU will utilise the syndicates' results data obtained through the centralised distribution systems.

3.0 Supporting Accounts

- 3.1 A copy of the syndicate annual accounts together with the underwriting accounts or relevant pages of the Lloyd's Annual Return should accompany the tax computation submitted to MSU. Please refer to Market Bulletin Y3734 dated 26 January 2006 for further guidance.

4.0 Exchange Rate Adjustments Required to the Tax Computations

- 4.1 A currency exchange adjustment is needed to recognise any exchange gain or loss between the closing rate of exchange used for the syndicate accounts and the rate of exchange applying in April 2007 when the US dollars were released to MSU.
- 4.2 Following the adoption of annual accounting in accordance with UK GAAP from 1 January 2005, the managing agent should determine the most appropriate accounting policies to be used for year end reporting, including the determination of applicable accounting policies for exchange rates. The exchange rate adjustment included in the tax computation should therefore be calculated using the relevant rates of exchange used by the syndicate for accounting purposes.
- 4.3 The following example illustrates how an exchange loss might be calculated on a US dollar surplus of \$1,000, based on a Lloyd's year end rate of 1.96 and a rate of 2.00 applying on 18th April 2007 when the US dollars were released to MSU:

\$1,000 converted to sterling at 2.00	=	£500.00
\$1,000 converted to sterling at 1.96	=	<u>£510.20</u>

Exchange loss = £ 10.20

The assessable profit is therefore £500 i.e. the result of £510.20 shown in the accounts less an exchange loss of £10.20. This adjustment needs to be made in respect of any dollars being released from the syndicate to the members, regardless of the net result of the syndicate.

- 4.4 An exchange rate adjustment is only required where a surplus was paid to MSU. Please do not calculate an exchange gain/loss on syndicate cash calls that were paid to the syndicate as these adjustments will be calculated separately by MSU and reported on members' CTA2 advices.
- 4.5 An adjustment must also be made to the syndicate's profit/loss in respect of any early release of US dollar profits that took place during 2004, 2005 or 2006. A currency exchange adjustment is needed to recognise any exchange gain or loss between the rate of exchange at the date the CST was made and the closing exchange rate used for the syndicate accounts.

For example, if a syndicate made an early release of \$1,000 in respect of 2004 year of account profits in June 2005, when the exchange rate was 1.8182, a gain on exchange of £39.79 calculated using a Lloyd's year end rate of 1.96 should be included in the tax computation:

\$1,000 converted to sterling at 1.8182	=	£549.99
\$1,000 converted to sterling at 1.96	=	<u>£510.20</u>
Exchange gain		<u>£ 39.79</u>

A list of average month end exchange rates are provided at the end of this bulletin to assist with the calculation of these adjustments.

- 4.6 The exchange rate adjustments must be included within the tax computations and managing agents should provide full details of the calculations to both LBS Financial Sector (London) and to MSU. The adjustments need to be shown on the face of the computation where indicated.
- 5.0 **Foreign Taxes**
- 5.1 The total result for the period (ADEG code RX01) should be net of all foreign taxes. If any foreign taxes (charged to the syndicate or withheld on investment income) have not been treated as expenses of the syndicate, these taxes should be deducted at line 1a.
- 5.2 The final Case I result of the syndicate should also be net of all foreign taxes. It is no longer necessary to disclose these foreign taxes as adjustments on the face of the tax return or to include them as disallowed personal or syndicate expenses.

5.3 It is however necessary to disclose some of these foreign taxes as memorandum items. The foreign tax on premiums and the foreign withholding tax suffered on investment income should be shown on the relevant lines on the tax return.

5.4 We will also be providing members with further guidance on the tax treatment of these foreign taxes in next year's UK Taxation Advices.

6.0 Quota Share Information

6.1 Where managing agents are aware of members entering into personal quota share arrangements, they are asked to contact Annette Stone on Lloyd's extension 2376, to discuss how any relevant information can be provided.

7.0 Apportionment Schedules for Managing Agents

7.1 Notwithstanding that the legislative requirement to produce apportionment schedules remains, HMRC does not now require these as a matter of routine. However, HMRC does reserve the right to request them in exceptional circumstances. Where a managing agent receives such a request please forward it to MSU within seven days of receipt. MSU will arrange for an apportionment schedule to be provided.

8.0 Timetable

8.1 The timetable for submission of data to MSU is shown below.

A	Syndicate tax computation information (Appendix 1)	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 2 July 2007
B	Copy of LL250	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 2 July 2007
C	Supporting Accounts	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 2 July 2007
D	Exceptional requests for apportionment schedules	Within 7 days of receipt of the request from HMRC

8.2 All information in connection with the above should be addressed for the attention of Annette Stone, Tax Operations, Lloyd's Members' Services Unit, Fidentia House,

Walter Burke Way, Chatham Maritime, Chatham, Kent, ME4 4RN or by email to annette.stone@lloyds.com. Annette can be contacted on Lloyd's extension 2376 should you have any related queries that you wish to discuss.

9.0 Adherence to Deadlines

- 9.1 The consolidated taxation advice produced by MSU provides members with the majority of their taxation information relating to their underwriting activities at Lloyd's. In view of this it is important that the timetable in 8.1 is adhered to.

This Bulletin is being sent to all managing agents, recognised auditors and other preparers of UK tax computations. In addition it is being sent to members' agents for information only.

Christine Allcott
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Members' Services Unit

Table of Exchange Rates to be used for Calculation of Adjustment as Detailed in Paragraph 4.0

January	2004	1.8209
February	2004	1.8685
March	2004	1.8281
April	2004	1.8054
May	2004	1.7895
June	2004	1.8295
July	2004	1.8431
August	2004	1.8206
September	2004	1.7932
October	2004	1.8073
November	2004	1.8613
December	2004	1.9301

January	2005	1.8782
February	2005	1.8881
March	2005	1.9037
April	2005	1.8966
May	2005	1.8543
June	2005	1.8182
July	2005	1.7519
August	2005	1.7948
September	2005	1.8077
October	2005	1.765
November	2005	1.7354
December	2005	1.7457

January	2006	1.766
February	2006	1.7481
March	2006	1.7444
April	2006	1.7692
May	2006	1.8692
June	2006	1.8432
July	2006	1.8449
August	2006	1.8932
September	2006	1.8859
October	2006	1.8766
November	2006	1.9125
December	2006	1.963

